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TAGS: [ECON](#) [EFIN](#) [EIND](#) [ECPS](#) [ENRG](#) [PGOV](#) [KCOR](#) [LE](#)
SUBJECT: ECONOMIC REFORM PROSPECTS IN LEBANON'S NEW
GOVERNMENT

REF: A. BEIRUT 692
[1](#)B. BEIRUT 1214

Classified By: CDA, a.i. Thomas F. Daughton for reasons 1.4 (b)
and (d).

[1](#)1. (C) SUMMARY: While some worried that the long and
contentious government formation process would result in an
ineffectual cabinet, the new ministers include a surprising
number of relatively apolitical technocrats. With regard to
the USG's key economic reform priorities in Lebanon (ref A),
Embassy contacts say that new ministers from both the
majority and opposition have the expertise to take on reform
in telecoms, electricity, trade and financial management.
The key will be political will and a focus on technical
issues over ideological scuffles in the cabinet. End Summary.

A CABINET THAT CAN
WORK, IN THEORY...

[1](#)2. (SBU) Breaking with historical precedent, Lebanon's
political blocs chose a significant number of ministers
without strong party affiliations to represent them in the
new cabinet (bios in ref B). Prime Minister Saad Hariri
appointed only three members of his Future Movement to the
cabinet, filling out the rest of his share of seats with
independents, while neither of the two Lebanese Forces
ministers, Ibrahim Najjar and Salim Wardeh, are actually
party members. Michel Aoun designated only one member of his
Free Patriotic Movement (FPM) as a minister (his son-in-law,
Gebran Bassil) and gave his other two ministries to non-party
members with significant technocratic experience. Even
though the cabinet reflects political interests, the result
is a government many contacts think might work.

[1](#)3. (SBU) "This government could be a golden opportunity for
reform," said Youssef el-Khalil, director of monetary
operations at the Central Bank of Lebanon. He noted that the
opposition, which had previously cast itself as a proponent
of populist economic policies, needed to reshape its image.
FPM leader Michel Aoun's announcement that he had appointed
prominent economist Charbel Nahhas as telecommunications
minister "because he supports privatization" was the
beginning of that process, el-Khalil said. As for the
majority, he explained, it had often been criticized for a
lack of the kind of medium- and long-term planning required
for reform. El-Khalil hoped the new cabinet would be able to
correct that tendency by agreeing to implement reforms that
both sides advocate.

...BUT IN PRACTICE,
POLITICS STILL RULE

14. (C) Other contacts echoed el-Khalil's sentiments, but with a strong dose of Lebanese political realism. Makram Sader, president of the Association of Banks in Lebanon (ABL), said the new government has the expertise to execute reform -- as long as there is political will. Marwan Barakat, director of research at Bank Audi, noted the presence of some "good elements" in the cabinet but stressed that political consensus would be the only path to the fulfillment of reform promises. Several contacts worried that the new ministers with technocratic backgrounds would be too politically weak to outmaneuver political actors and vested interests.

PROSPECTS FOR PROGRESS

15. (C) Our direct engagement with the new cabinet on USG economic reform priorities in the coming weeks will clarify what we might expect from the Hariri government. In the meantime, we offer preliminary observations on the prospects for reform under the leadership of the new ministers of telecommunications, energy and water, economy, and finance.

-- Minister of Telecommunications Charbel Nahhas:

Kamal Shehadi, chairman of Lebanon's Telecommunications Regulatory Authority, welcomed news of Nahhas's appointment, saying he is "very smart and a very good person." The

Central Bank's el-Khalil described Nahhas as "technically very strong," and ABL's Sader pointed out that Nahhas was one of the first to propose corporatization and privatization of the fixed-line monopoly Ogero in 1998. Although Shehadi expressed concerns that Nahhas would oppose a strong, independent regulator -- as had his predecessor, the FPM's Bassil -- he said he still believed Nahhas was someone he could work with. Industry representatives, such as Maroun Chammas, CEO of Lebanon's largest private Internet service provider, were pleased with the choice, but cautioned that those with vested interests in the ministry, such as Director General and CEO of Ogero Abdelmenhem Youssef, would try to thwart reform attempts by the minister.

-- Minister of Energy and Water Gebran Bassil:

Unlike Nahhas, Bassil enters the energy ministry, as he entered the telecoms ministry last year, with no technical experience in his ministry's area of responsibility. Nevertheless, most of our contacts believe he will quickly take concrete action on Lebanon's egregious electricity and water shortages, even though many object to Bassil's personality and management approach. Although he often sparred with Bassil, Ziad Hayek, Secretary General of the Higher Council for Privatization, put it succinctly: "There is no question that he will work hard and get something done." What that something will be is still unclear, as he has not made any declarations about his new portfolio. If Bassil follows the model he chose in the telecoms ministry, where he expanded the cellular network and lowered prices but did not pursue corporatization or privatization, he may begin his reform efforts with infrastructure improvements to increase electricity generation capacity and leave the corporatization of Electricite du Liban, the inefficient state-owned electricity utility, for later.

-- Minister of Economy and Trade Mohammed Safadi:

Safadi returns to the Ministry of Economy with a solid knowledge of the issues and personalities in his ministry. He is committed to bringing Lebanon into the WTO and has a newfound respect for intellectual property rights (IPR) following an October visit from the Secretary General of the World Intellectual Property Association (WIPO). Zouha Sakr, former head of the MEPI-funded WTO accession project at the

ministry, assessed that even though Safadi is not an expert on trade issues, his experience at two WTO working party meetings in Geneva had motivated him to push his parliamentary colleagues to pass the legislation necessary to get Lebanon into the organization. Wissam Amil of the ministry's IPR unit made a similar assessment, explaining that Safadi had never met anyone from the IPR unit until September but came out of his encounter with the WIPO head with a new commitment that would have been difficult to elicit from a brand new minister. In this ministry, continuity offers the best chance for reform.

-- Minister of Finance Rayya Mohammad Haffar al-Hassan:

Al-Hassan's reputation is excellent among Embassy contacts, who unanimously praise her knowledge, experience and work ethic. Alain Bifani, Director General at the finance ministry and a known FPM-supporter, praised al-Hassan, saying that her extensive experience working on economic and budget issues at the finance ministry, the economy ministry, and the PM's office made her an excellent choice for the slot. Nonetheless, he warned, politically motivated staff installed at the ministry by past administrations will make it difficult for her to control the vast bureaucracy, particularly the direction of financial management policy. Bifani and others also worried that al-Hassan's personality may not be strong enough to withstand ministers, parliamentarians and other competing political forces. El-Khalil spoke highly of al-Hassan's financial knowledge but added, "She will have to prove herself as a decision-maker." Embassy staff who know her believe her technocratic background will make her a natural partner for the USG on issues like budget transparency, but in order to execute reforms in this area or impose spending restrictions, she will need strong political backing. Achieving fundamental budget and fiscal reform will continue to be a challenge.

THE OBSTACLE: POLITICS

16. (C) COMMENT: Our contacts are hopeful, if not quite optimistic, that reform can happen in the new government. Their skepticism stems from their repeated experiences with past governments frozen by political conflict. In Lebanon, political disputes often dominate cabinet and parliamentary sessions, leaving technical issues to gather dust. The USG can seek to prevent a repeat of that model by energetically engaging the entire political class on the importance of enacting reforms.
DAUGHTON